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4520 EAST WEST HIGHWAY
SITE 800
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1989 PAY FOR EXECUTIVES AT TOP THRIFTS
Table on page 10

AMERICAN BANKER

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Bailouts to Top Private Mergers In 2d Quarter

By REID NAGLE
and KEVIN STIROH

For the first time since the Depression, more bank and thrift assets will change hands through government bailouts than through private-sector mergers and acquisitions.

At current levels, the government will arrange marriages for at least $20 billion of deposits in the second quarter of 1990. The figure could go as high as $40 billion if the Resolution Trust Corp. meets its target of 140 resolutions by June 30.

By contrast, private-sector acquisitions are likely to be below $15 billion of assets, less than a third of the assets that changed hands during last year's merger-charged third quarter. That quarter was tied with the third quarter of 1987 for most banking assets changing hands.

ANALYSIS: *Follow-up on the news*

Not surprisingly, the rising tide of deals, a majority of which relate to the thrift bailout, has resulted in a sharp decline in prices paid for depository franchises. This across-the-board price decline has affected every type of sale – bank and thrift, public and private.

A useful yardstick for measuring premiums is to take price above tangible book value and compare it with deposits.

By this measure, premiums rose steadily through the first three quarters of 1989, reaching 7.5% of deposits in the third quarter, and have since declined to less than 5%. Seller resistance is likely to prevent prices from falling much lower in the near future, thereby causing a further slowdown in the total volume of private-sector deals.

This article is the launch of a new column, Mergers, that every Friday will report on bank and thrift acquisitions as part of the American Banker's expanded finance coverage.

Ultimately, sellers' perceptions will move into line with the reality of the marketplace. When that happens, prices will fall and private-sector deals will begin to pick up. But that day is a long way off.

At the same time that private-sector consolidation is trailing

See **BAILOUT** *page* **13**

Mr. Nagle is president and Mr. Stiroh an analyst with SNL Securities, a Charlottesville, Va., publishing and consulting concern that specializes in the bank and thrift industries.

INSIDE NEWS

CONSUMER

BUYER PROTECTION and extended warranty plans don't appear to be selling many checking accounts. *Page 6*

INTERNATIONAL

BRAZIL SAYS IT wants to repay $114 billion owed to foreign creditors but cannot do so until its troubled economy recovers. *Page 9*

TECHNOLOGY

THE FED APPROVED several amendments to Regulation CC, which limits the time banks may take to make funds available on deposited checks. *Page 3*

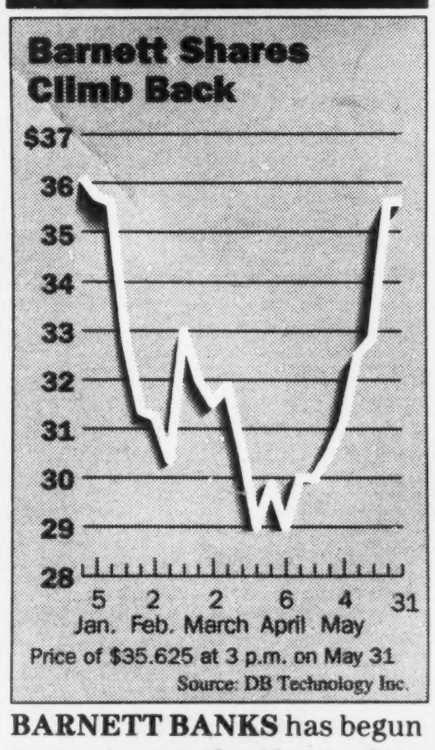
MORTGAGES

GE MORTGAGE Capital's recent agreement to acquire a $12 billion servicing portfolio from Travelers Corp. is just the start of an ambitious agenda in servicing. *Page 8*

PEOPLE

CHARLES PISTOR, former president of the ABA, is determined to remain in banking despite his bad luck at Texas institutions. *Page 2*

FINANCE



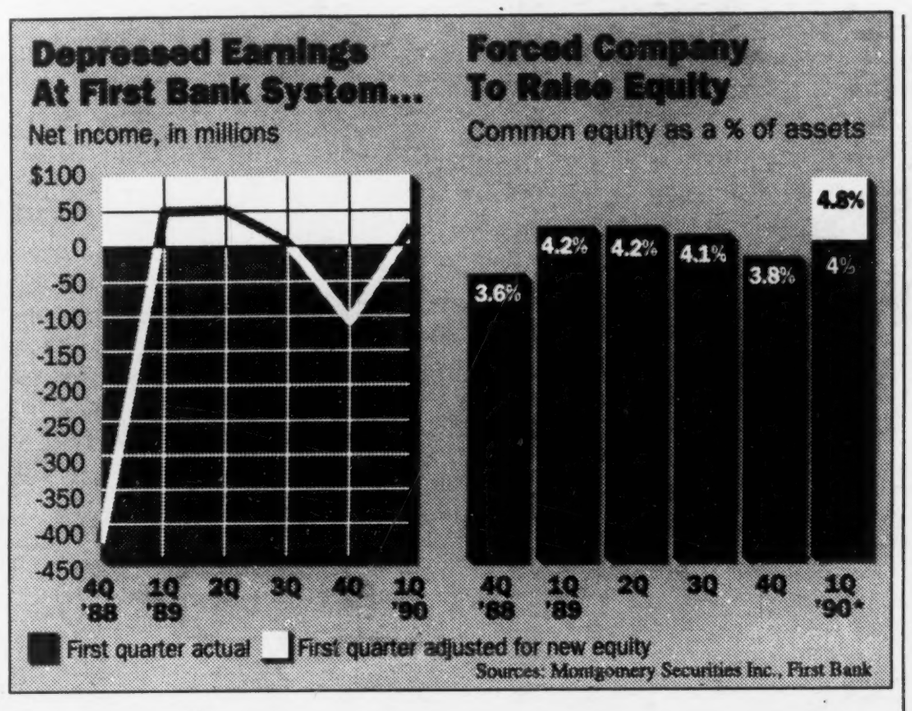
BARNETT BANKS has begun to regain some lost luster. Its shares jumped 12% in May as bank stocks generally revived a bit. *Page 16*

COMMENT

BANKERS UNDERSTAND the need for marketing, but in many instances they do not understand the process, Denis Burns cautions. *Page 4*

INDEX

Company Index	2
Funny Money	4
Classified Advertising	12
Bank and Thrift Stocks	15



First Bank System to Boost Equity With a $175 Million Private Issue

By KELLEY HOLLAND

Marking a key stage on the road to recovery, First Bank System on Thursday said it was raising $175 million in equity, which will strengthen its capital position and reduce its susceptibility to an unwanted takeover.

"We did this to help grow the company and get it ahead of the curve," said John F. Grundhofer, chairman, president, and chief executive officer of the Minneapolis banking company. "We'd like to be an acquirer rather than a target."

A Private Placement

The new common stock, to be placed privately with two institutional investors, will raise First Bank's equity-to-assets ratio from 4.0% to 4.8% on a pro forma basis for the first quarter.

The two investors are Corporate Partners, a limited partnership managed by two senior officials of the investment banking firm of Lazard Freres & Co., and the State Board of Administration of Florida, the investment arm of the state of Florida.

When the sale is completed, which depends on regulatory approval, the investors will own a total of 16.6% of First Bank System's outstanding shares.

Under the agreement they can increase their ownership to just under 25% of First Bank. But the pair agreed to restrictions regarding the sale of their stake, giving the bank a measure of protection against unsolicited takeover bids.

For example, the investors agreed not to transfer their

See **FIRST** *back page*

BankAmerica Is Expected To Acquire Arizona S&L

By STEVE KLINKERMAN
and SAM ZUCKERMAN

BankAmerica Corp. today is expected to acquire the deposits and some of the assets of Western Savings and Loan Association, a $4.2 billion-asset Phoenix thrift controlled by the Resolution Trust Corp.

The purchase price could not be learned. But the failed thrift had a capital deficit of $1.4 billion at the end of 1989, according to Sheshunoff Information Services, an *American Banker* affiliate.

That suggests the deal will cost the RTC more than $1 billion, making it one of the biggest and most costly transactions conducted by the agency.

Spokesmen for San Francisco-based Bank of America and the RTC declined to comment. But officials at the bank company's annual meeting last week identified Oregon, Nevada, and Arizona as top expansion priorities.

Arizona is the only state on the list where the company does not have a banking license or the beginnings of a branch network.

Western is one of seven failed Arizona thrifts controlled by the RTC. The institution has 62 branches and is the second-largest thrift in the state.

See **BANKAMERICA** *page* **11**

S&L Executives' Pay Rises as Profits Fall

By BILL ATKINSON

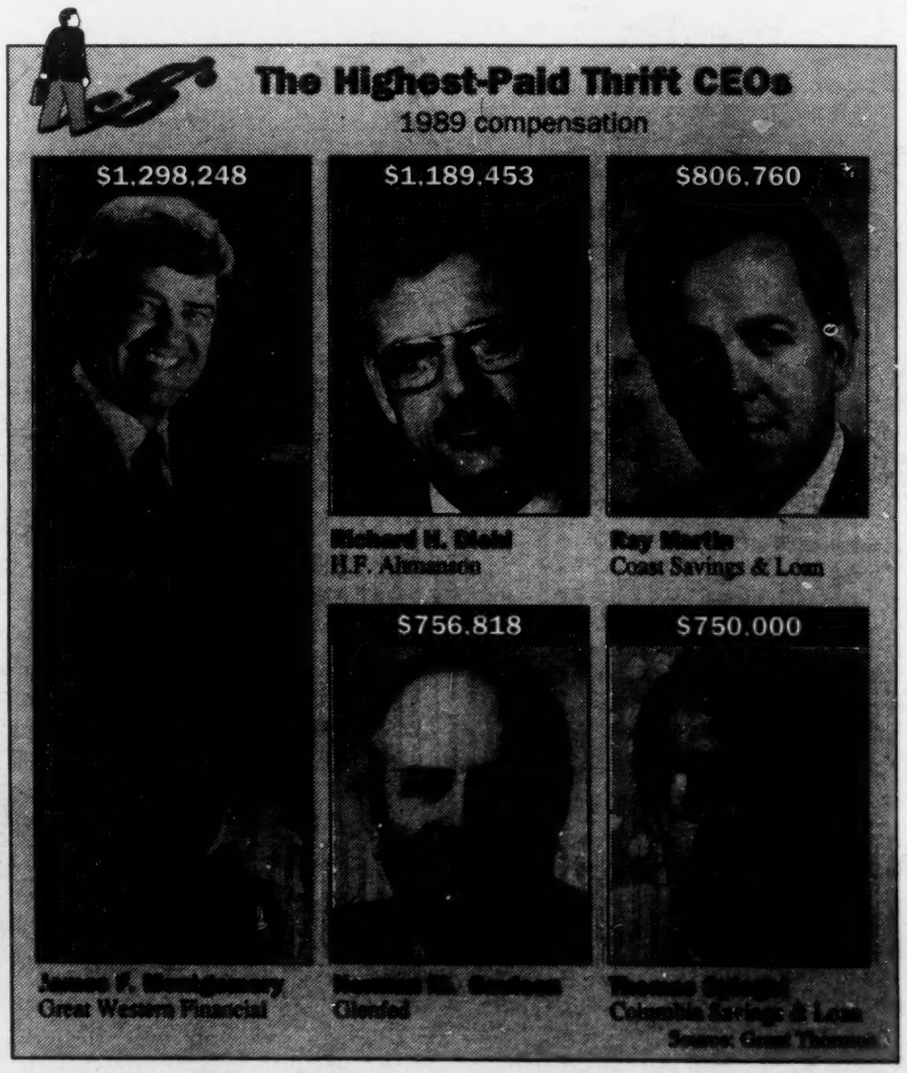
At the nation's largest thrifts last year, salaries were going up while performance was going down.

The median pay of the top executive at the 20 largest thrifts jumped 9.7%, to $643,132, while the return on average assets fell by more than half, to 0.24%, according to a study by Grant Thornton, a Chicago-based accounting and consulting firm (see table on page 10).

Of the 20 highest-paid executives, nine received higher compensation even though their institutions reported decreased earnings.

The biggest increase in compensation – 30.3% – went to Ray Martin, chairman and chief executive of Coast Savings and Loan Association, who earned $806,760. Meanwhile, Coast's return on assets fell to negative 0.62%, from 0.39% in 1988. The Los Angeles-based thrift lost $74.1 million when it wrote off

See **THRIFT** *page* **10**



COMMENT / *By Denis Burns*

Competition Fosters Need To Understand Marketing

For most banks and bankers, marketing is a relatively recent discipline. In today's deregulated, fiercely competitive environment, they understand the need for marketing. But in many instances, they do not understand the process.

That's why we hear such conflicting complaints as, "We're not spending enough on marketing" and "We're spending too much on marketing." Not to mention the cry for help: "How can we tell how effective our marketing expenditures are?"

Like packaged goods marketers before them, bankers – to get the most from marketing – must understand the process. Marketing is more than writing ads, cranking out brochures, and designing branch signs.

Marketing involves identifying a significant and attractive market, creating products to meet the unfilled needs of that market, and then putting together the necessary support (e.g. pricing, delivery system, advertising, promotion, staff training) to sell them successfully.

An External Focus

Thus, marketing – effective marketing – focuses on the exterior world: markets, their segments, the competition. Success is generally measured by what you can bring to the marketplace that is better than what your competitors offer. In marketing language, that's "differentiation," or "competitive advantage." And it is necessary for real, long-term success. On the bottom line.

Banks that fail to do effective marketing are those that look inward: are content to sell products already on their shelves, products that are no different from or better than those of the competition. Banks that do not price competitively. Banks that are content with mediocre service. Or banks that allow operational lethargy to preclude creation of marketable new products.

The Process by Stages

A traditional model of the marketing process has five major stages, beginning with a look at the exterior world – the markets to be served – and ending with evaluation of results. The intermediate stages are a look at the interior environment, or a bank's strengths and weaknesses; the setting of a strategy; and implementation of the plan.

But there is interaction between and among each of the stages. Marketing is an ongoing process.

Understanding the marketing process is the first step in taking the mystery out of marketing. It is necessary but not sufficient.

Where on the Chart?

For example, many banks and bankers understand the essentials of the marketing process, and consider marketing integral to basic corporate strategy. But they wring their hands over the dilemma – is marketing a line or staff function?

Common sense dictates it is not a staff support activity, since it includes all the factors contributing directly to the sale of products, and therefore produces revenues on the income statement. Marketing is a line function, and is so considered at most marketing-oriented manufacturing companies.

Another area of mystery is marketing vocabulary. Terms like "market segmentation," or "random sample" are really not hard to understand. Study a marketing textbook. Attend seminars such as those offered by the Bank Marketing Association.

"Like packaged goods marketers before them, bankers must understand the process. Marketing is more than writing ads, cranking out brochures, and designing branch signs."

Ask for an Explanation

Better still, ask your marketing manager to explain. Just as you have taught him or her bank-ese, he or she should be happy to give you a short course in marketing-ese.

Understanding the process will help determine the right people to hire or place (if they are already on your staff) in the marketing department. The right people are those who understand and are comfortable with the process. If you are not sure, have candidates interviewed by your ad agency, use headhunters who know marketing, or hire a consultant with the right background to screen resumes and candidates.

Evaluating the performance of a marketing department need not be an arcane exercise. Once you understand the process, once you have approved the strategy – and the budget – you should be able to quantify the results expected, set clearly measurable goals, and measure performance against those goals.

Many banks have trouble setting realistic goals (e.g., new accounts, balances). If you have doubts, check with the Bank Marketing Association or a qualified consultant.

Once you have understood the process and are no longer intimidated by the jargon, you should be in a position to confidently harness marketing to your strategic plan – to make it produce for you and your bottom line.

Do not, however, make the mistake of micromanaging. You do not have to know how to construct a reach and frequency table, or write a telemarketing script. You have other things to think about. After you have involved your marketing team in your strategic thinking, you have only to understand what your marketing team is doing – and evaluate its performance.

With the confidence that comes from understanding, you will have removed the mystery from marketing. You will then be in a position to use it as an engine to drive the growth of your bank. □

Mr. Burns spent 25 years in marketing at Chase Manhattan Bank, Citibank, and General Foods Corp. He recently opened Denis Burns Consulting, New York.

FUNNY MONEY / *By Tom Leander*

Security Trinket

Investors have at times compared the mortgage-backed securities market to a jungle. Perhaps the Federal National Mortgage Association had the comparison in mind when it hatched its latest promotional gimmick.

Peggy Turbett

TRUNCATION: Fannie Mae's pint-size pachyderms.

Representatives of the quasi-governmental mortgage investment agency have been distributing five-inch-high beanbag elephants at conferences and on sales calls. Fannie Mae's variety of mortgage-backed securities "makes managing your portfolio just as easy as juggling the Friendly MBS Elephants," says a note on the yellow container they are packaged in.

The inspiration for the elephants came from within Fannie Mae, says a spokesman. McKinney & Silver, Fannie's Raleigh, N.C., advertising agency, quickly seized on the elephant motif to trumpet the virtues of Fannie Mae in recent newspaper ads.

Officials would not reveal the cost of the tiny pachyderms, but a spokesman suggested that it was peanuts compared with the goodwill the elephants have generated as toys for investors' kids.

* * *

Hong Kong Hex

When the Bank of China opened a skyscraper in Hong Kong in May, it was viewed as symbolic of China's eventual takeover of the colony in 1997. The building's daring design by the Chinese-American architect I.M. Pei – featuring four prism-like pillars topped by twin antennas – won acclaim from architects worldwide.

But some Hong Kong residents are spooked by the hulking tower, which they say resembles daggers. The two antennas at its top have been likened to empty chopsticks. Both symbols are bad omens under a Chinese folk tradition called *fung shui.*

The controversy has grown into a public issue reminiscent of one faced in the United States by the Procter & Gamble Co., whose corporate logo of a crescent moon was said to be an occult symbol. The Cincinnati-based company has said the allegation was absurd.

Some Hong Kong citizens hang small mirrors outside their windows to reflect the bad luck cast by the tower – at 1,289 feet, the tallest in the city.

* * *

An Itch in Time

ARCS Mortgage Inc., the mortgage banking unit of Bank of New York Co., has come up with a new name for one of the hottest types of mortgage: "The 7-Year Itch."

The company is using the name for a loan that features a relatively low interest rate for seven years and then adjusts to another rate for the remaining 23 years. Lenders nationwide have been reporting success with similar loans.

The name recalls a 1955 film of the same title, starring Marilyn Monroe and Tom Ewell, about a man whose affections stray after seven years of matrimony. But Ira Cohen, an ARCS senior vice president, says some of the company's employees are associating the name with something else.

"They say it sounds like a disease – something you need some kind of cream for," he said.

He added, however, that "a lot of consumers call us about it, so that's good."

— Phil Roosevelt

* * *

Put Yer Money Heer

Would-be thieves sneaked up to a night depository at a branch of Barclays Bank in York, England, last week. Armed with drill and screws, they attached a phony night deposit box to the surface of the genuine one.

The thieves intended to remove their box before morning, after local storekeepers had dropped cash in the slot, according to police.

But flimsy construction – and perhaps bad spelling – scotched the job. Police said a customer who deposited his money became suspicious about the loose-fitting aluminum box and the sign on it. He phoned the police, and they confiscated the apparatus.

The thieves tried to reassure depositors with a notice on their bogus safe stating, "Due to key vandalism, use the temporary shute," which should have been spelled "chute."

— John Evans

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COPY EDITORS
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ART
Dylan Kreuzer (assistant director), Peggy Turbett, Carl Zeichner

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Contributing Editor: Paul S. Nadler
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Thrift Executives' Compensation Rises as Returns Dwindle

Continued from *page* **1**
goodwill to comply with the thrift-bailout law.

Inverse Relationship

"What bothers me is you see guys getting increases when the performance of their companies has dropped significantly," said Jon Rosenbaum, senior manager at MCS Associates, a division of Grant Thornton, who conducted the study.

"I want to see more sensitivity so that, when a company's earnings drop, the executive's cash compensation should reflect that. Some companies do a good job of it, others do not."

The study may prove embarrassing for thrift executives, coming at a time when the price tag of the government's bailout of the industry is rising rapidly.

Taking the Long View

But some executives took issue with the findings. "I think executives are compensated on their long-term contribution to the organization, not just year-to-year, or quarter-to-quarter return on equity," said Kirk Hallahan, a spokesman for Coast Savings.

He said Mr. Martin received a base salary of $600,000; the remainder of the compensation came from stock options he exercised.

A spokeswoman for H.F. Ahmanson & Co. also offered an explanation. Richard Diehl, chairman and chief executive of Ahmanson's Los Angeles-based thrift, received $1.2 million in compensation, up almost 16% from the previous year, while Ahmanson's ROA slipped to 0.45% from 0.53%.

But the spokeswoman, Mary Trigg, said the earnings decline resulted from a increase in the effective tax rate. She said despite the decline, the company's pretax core earnings increased $52.8 million over the previous year, net interest income was up 13%, deposits rose, and loan volume was the third-highest in the institution's history.

HIGHEST-PAID EXECUTIVE AT TOP THRIFTS

Company	Assets (in billions)	1989 ROA	1988 ROA	Title	Executive	1989 Pay	88-89% Change
Great Western, Beverly Hills, Calif.	$37.2	0.28%	0.82%	Chairman, CEO	J.F. Montgomery	$1,298,248	0.4%
H.F. Ahmanson, Los Angeles	44.7	0.45%	0.53%	Chairman, CEO	R.H. Diehl*	1,189,453	15.9%
Coast Savings, Los Angeles	11.2	-0.62%	0.39%	Chairman, CEO	R. Martin	806,760	30.3%
Glenfed, Glendale, Calif.[1]	25.6	0.47%	0.74%	President, CEO	N.M. Coulson	756,818	17.0%
Columbia Savings, Beverly Hills	9.3	-4.51%	0.53%	Chairman, CEO	T. Spiegel[4]	750,000	-80.0%
Goldome, Buffalo, N.Y.	13.0	-1.77%	-0.79%	President, CEO	T.A. Cooper[5]	736,538	N/A
Homefed, San Diego	17.8	0.66%	0.72%	Chairman	K. Fletcher	733,593	10.4%
Golden West, Oakland	19.5	0.85%	0.95%	Chairman, CEO	H.M. Sandler	665,526	9.7%
Standard Federal, Troy, Mich.	9.6	0.46%	0.68%	Chairman, President	T.R. Ricketts	643,132	16.3%
Crossland Savings, Brooklyn, N.Y.	14.1	-1.27%	0.10%	President, CEO	M.L. Reissman	604,407	-6.1%
Talman Home Federal, Chicago	6.1	0.33%	0.42%	Chairman, CEO	T.H. Roberts*	600,000	0%
Great American Savings, San Diego	15.9	-1.61%	0.33%	Chairman, CEO	G.L. Luce	598,540	-4.4%
Meritor Savings, Philadelphia	12.6	-0.37%	-1.17%	Chairman, President	R.S. Hillas	594,795	N/A
Perpetual Financial, McLean, Va.[2]	6.2	0.36%	0.59%	Chairman, CEO	T.J. Owen*	536,810	13.0%
Dime Savings, Garden City, N.Y.	11.7	-0.74%	0.71%	Chairman, CEO	H.W. Albright Jr.	500,000	-10.4%
Firstfed Michigan, Detroit	11.5	0.19%	0.31%	Chairman, CEO	J.A. Aliber	492,450	-17.9%
Anchor Savings, Northport, N.Y.[3]	9.0	-0.27%	0.03%	Chairman, CEO	D.L. Thomas[6]	492,167	N/A
Washington Mutual Savings, Seattle	6.6	0.31%	0.65%	Chairman, CEO	L.H. Pepper	480,662	16.5%
Calfed, Los Angeles	26.2	0.31%	0.51%	President, COO	J. St. Dennis 3d[7]	461,552	N/A
Northeast Savings, Hartford, Conn.	7.9	-0.16%	0.30%	Chairman, President	G.P. Rutland	461,153	N/A
Average	15.8	-0.33%	0.37%			670,130	0.7%
Median		0.24%	0.52%			643,132[8]	9.7%[8]

NOTES
1. Fiscal year ending 6/89. 2. Fiscal year ending 11/89. 3. Fiscal year ending 6/89. 4. T. Speigel resigned in December 1989. 5. T.A. Cooper joined Goldome in April 1989 as CEO and president, replacing the retired R.B. Kenzie. 6. D.L. Thomas retired in March 1989; thus a full year's compensation is not reflected in this figure. 7. J. St. Dennis 3d was elected president and COO in July 1989, chairman and CEO in February 1990. J.R. Torreli 3d, former chairman and CEO, terminated in July 1989, received $2,232,870, of which $2.2 million represented a severance settlement pursuant to the terms of his contract. 8. Based on 15 officers holding identical positions in 1988 and 1989. * A portion of compensation paid in 1989 reflects prior year's performance. Unless otherwise noted, all fiscal years end in December. Percentage changes in annual compensation computed only for those individuals who served in the same capacity for years 1988-89.

Source: Grant Thornton

Several industry followers interviewed do not think the compensation packages are out of whack because the thrift business has become extremely complicated and dicey.

"There is that saying, you pay for what you get," said James Barth, an industry watcher and professor at Auburn University. "You have to pay to get good people."

The highest-paid executive was James Montgomery, chairman and chief executive of Los Angeles-based Great Western Financial Corp. He racked up $1.3 million in compensation – unchanged from the previous year – while the thrift's ROA fell to 28 cents for every $100 in assets from 82 cents in 1988.

The biggest loser was Thomas Spiegel, former chairman and chief executive of Los Angeles-based Columbia Savings and Loan, who received compensation of $750,000, down 80% from the previous year. Columbia lost $4.51 for every $100 in assets. Huge losses from its junk-bond portfolio have made Columbia a candidate for seizure by federal regulators.

Detroit-based FirstFed Michigan Corp. chairman James Aliber saw his compensation package drop nearly 18% to $492,450 because of the S&L's weak performance compared with previous years.

The Grant Thornton study analyzed chief-executive compensation at 97 publicly held S&Ls from 1987 to 1989 by sifting through proxy reports.

The study found that while 88% of the thrifts in the study posted declines in earnings, the majority of the institutions reported increases in compensation.

Nine percent of the executives received pay hikes of more than 20%, while 31% received increases of more than 10%.

Overall, the median cash compensation rose by 6% in 1989, which matches 1988 figures, but fell below the 13% increase reported for 1987, the study stated.

Mr. Rosenbaum said that while the industry's compensation packages may not be excessive, directors will be criticized if they are not tied more closely to the institutions' performance.

"I think directors have to come to grips with the issue. I would certainly hold them responsible for this," he said.

"I think boards in general have not done a good job of holding CEOs accountable through more sensitive compensation programs. You are going to see more and more pressure being placed on the directors."□

NESB Seeks to Renegotiate Senior Notes

By STEPHEN KLEEGE

NEW YORK — NESB Corp., New London, Conn., was trying on Thursday to reopen negotiations with a group of insurance companies that demanded immediate payment in full of $50 million of senior notes on which the thrift-holding company is in default.

If a settlement cannot be reached, the company's New England Savings Bank may be forced to sell assets, risking losses and erosion of capital.

"There was no movement between our regulators and the lenders. At the moment, this is a stalemate," said Ezra Harris, president of the savings bank, explaining why the negotiations broke down.

Impasse Over Collateral

He said the impasse centered on the lenders' insistence that New England Savings Bank assets serve as collateral for the holding company's notes – something the Federal Reserve forbids in transactions between holding companies and their subsidiaries.

"With nonperforming assets in excess of 12%, they may not be able to go elsewhere to borrow. They may have to sell assets."

Don J. Kauth
First Albany Corp.

Mr. Harris declined to say how the holding company would raise the $50 million if it cannot negotiate a resolution. He said Travelers Corp., Hartford, and Cigna Corp., Philadelphia, were the largest of the creditors, accounting for more than 50% of the notes between them.

The notes, issued in connection with NESB's 1988 acquisition of Omnibank, had been due in 1995, but NESB defaulted under the terms of the notes when its capital fell below 6% at the end of the second quarter.

Analyst Don J. Kauth of First Albany Corp. said the losses that put the holding company in default ironically were associated with the real estate and construction loan portfolio of Omnibank.

"With nonperforming assets in excess of 12%, they may not be able to go elsewhere to borrow. They may have to sell assets," Mr. Kauth said.

A total of $167 million of the savings bank's loans are nonperforming, and the bank has taken reserves for $40 million. That leaves the company's $71 million of capital well short of its $127 million in unreserved nonperforming loans, Mr. Kauth said.

The company still meets its regulatory capital requirements.

Lomas to Buy Servicing Portfolio

NEW YORK — Lomas Mortgage USA said it has agreed to acquire a $600 million mortgage-servicing portfolio from Ameriway Mortgage Corp., a Houston concern affiliated with a thrift under control of the Resolution Trust Corp.

Lomas did not disclose the terms, and an RTC official could not be reached for comment.

The move follows Lomas' acquisition earlier in May of a $3.4 billion servicing portfolio from Bright Mortgage Co., also under RTC control.

Portfolio to Highest Level

Lomas Mortgage, a unit of Dallas-based Lomas Financial Corp., said the Ameriway purchase will bring its total servicing portfolio to $24.7 billion, its highest level ever. Like other servicers, Lomas earns fees for funneling monthly payments from borrowers to investors and performing other administrative chores.

The Ameriway deal "serves as confirmation that Lomas is firmly and actively committed to a strategy of controlled growth and establishing itself as a major participant in the resolution of mortgage assets associated with troubled thrifts," said Terry J. Deyoe, an executive vice president at Lomas Mortgage.

— Phil Roosevelt

Atlanta Bank Acquires Thrift Assets via RTC

ATLANTA — Merchant Bank of Atlanta said it has acquired the insured deposits and branch network of First Federal Savings and Loan Association from the Resolution Trust Corp. It did not disclose the terms.

First Federal operated 13 branches in the Atlanta area and had total deposits of $169.8 million, Merchant Bank said. Merchant, which had $37 million in assets at the end of March, also acquired branching rights in Clayton and Cobb counties in the transaction.

— Reuters

NOTE

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Cov. 1, Pgs: 4, 10